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International specialization in industrial production and its impact on the expansion of trade and economic relations between the socialist countries of Eastern Europe and the developing countries

Study by the UNCTAD secretariat

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INTRODUCTION

1. It seems by now generally recognized that international specialization in industrial production - whereby one partner assigns a certain part of industrial production to meet the needs of the other partner, which secures a durable market for such production - might play an important part both in expanding trade between the developing countries and the socialist countries of Eastern Europe, and in changing the structure of such trade so that a new division of labour between these two groups of countries might emerge. Reflecting this general approach 1/ Governments, at the third session of the Conference invited the Secretary-General of UNCTAD to study ways and means of expanding the existing opportunities for mutually advantageous international specialization between countries having different economic and social systems which might help to increase the volume of their mutual trade, taking into consideration the interests of developing countries. 2/ Elaborating on the same issue, the Trade and Development Board, at its fourteenth session, recommended among topics for further consideration, the "identification of future possibilities for economic co-operation in specific areas, with a view to developing geographically larger co-operation and specialization schemes". 3/

2. Responding to these mandates and recommendations, the UNCTAD secretariat has prepared and submitted to the Conference and the Trade and Development Board several studies dealing with various aspects of the general economic and policy issues pertaining to the achievement of complementary economic structures, as well as with some opportunities for trade-creating industrial specialization between the socialist countries of Eastern Europe and the developing countries. 4/

3. The present paper has a two-fold purpose. It aims, first, at evaluating the present weight, impact and scope of industrial specialization arrangements which have emerged in economic relations between the socialist countries of Eastern Europe and at assessing the trends and prospects for future developments in this field. Secondly, it aims at contributing to the governmental and international promotional efforts which would appear to be justified if the possibilities offered by this method of creating new trade flows between the two groups of countries are to be fully exploited. The discussion of some policy issues and criteria may be of relevance in this connexion.

4. In one of the earlier papers of the secretariat 5/, it was contended that the "inadequate complementarity of ... production patterns" was a limiting factor, among others, for the further expansion of trade between the socialist countries of

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1/ Proceedings of the United Nations Conference on Trade and Development, vol.I, Final Act and Report, annex A.III.2; Conference resolution 15 (II), part II, paragraph 11; conclusions by the President at first part of the twelfth session of the Trade and Development Board (A/8715/Rev.1, para.233 et.seq.).

2/ Conference resolution 33 (III), part VI, sub-paragraph (a).

3/ Agreed conclusion 112 (XV), paragraph 10 (c).

4/ "Expansion of trade through the promotion of complementary economic structures" (TD/125); "Expansion of trade through the promotion of complementary economic structures" a case study on Hungary (TD/B/391); "Trade aspects of international specialization between socialist and developing countries (Case study on the Czechoslovak wood-working industries" (TD/B/451).

5/ TD/125, op.cit., para. 49.

Eastern Europe and the developing countries. The elimination of this impediment takes on particular importance with the increasingly felt desire in both groups of countries to step up exports to each other's markets. Not only do the developing countries consider the socialist countries of Eastern Europe a particularly promising area for the future expansion of their exports, but the socialist countries of Eastern Europe have also shown considerable interest in the developing countries' markets as outlets for their growing exports of machinery and some other industrial goods. However there are grounds for some apprehension that the materialization of these intentions will produce results that are not in line with real opportunities if the developing countries remain in their role of primary product suppliers. As has already been stated elsewhere, 6/ the socialist countries of Eastern Europe occupy in international markets for commodities a position which differs in several aspects from that of the Western European and some of the other industrialized countries. When assessing the future development of trade, therefore, it must be borne in mind that the traditional pattern of developing countries' exports of primary products to the socialist countries of Eastern Europe may be able to warrant only moderate opportunities for accelerated expansion, once they have attained a certain level. Therefore, the search for concrete new opportunities in economic fields and industrial branches to have hitherto not formed a major part of trade is imperative if new impetus for trade expansion is to be imparted to trade between these two groups of countries.

5. The creation of conditions favourable to the fuller utilization of the possibilities which might be offered by closer co-operation with the socialist countries of Eastern Europe would appear to be an urgent task for the developing countries, which aspire to a new position in the international division of labour. The role of the socialist countries of Eastern Europe in the world economy is constantly acquiring importance, owing to the growing potential of these countries in respect of both their productive and their absorptive capacities. Accordingly, the solution of world economic problems, especially the problems of the restructuring of the world economy, must be considered as hardly possible without their participation.

6. Two recently intensified trends in the international relations of the socialist countries of Eastern Europe are of particular relevance in assessing the future prospects for their trade with the developing countries. The socialist countries of Eastern Europe are at present involved in comprehensive activities

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6/ See for example, and among others, "Review of trends and prospects in trade and economic relations between socialist countries of Eastern Europe and African countries", TD/B/505/Supp.1, paras. 138-139, which state that the socialist countries of Eastern Europe "have an agricultural sector that can supply most of their needs as regards agricultural raw materials and food", and that the "CMEA area as a whole is more self-sufficient in primary products than any other group of countries". Therefore, and in spite of the fact that "some of the socialist countries of Eastern Europe consider themselves highly dependent on imports of certain raw materials...", on the whole "the growth of imports of mineral and agricultural raw materials will not, in all probability, represent the most dynamic segment of trade ...".

leading to the integration of their economic structures within the Council for Mutual Economic Assistance (CMEA), especially through industrial specialization and co-operation. The achievements recorded so far and, even more, those envisaged for the future, can be expected to have considerable spill-over effects on trade with the developing countries. Furthermore, new avenues for co-operation are gradually, but unremittingly, being opened up in East-West relations following the progress in political normalization, which cannot but produce effects on the developing countries' trade. The question of how to include the developing countries in multilateral co-operation, and of how to promote the accelerated expansion of these countries, are issues that are gaining importance with both governments and international organizations.

7. The developing countries themselves have undergone dynamic changes in recent years. The emergence of a group of developing countries with rich resources, both material and financial, the initiatives to create integrated areas among countries of the developing world, the progress of industrialization in some developing countries - all these have already produced an impact on international economic relations. Also, the approaches recently evolved by the international community towards establishing a new international division of labour which would be more just and equitable for the developing countries enhance the importance and the promise of relations between the socialist countries and the developing countries. The role of international co-operation in creating favourable external conditions and in actively assisting the developing countries in their efforts to accelerate their economic development - a role which has been accentuated of late - 7/ coincides with the tendency of the socialist countries to base their relations with the developing countries on intensified and comprehensive co-operation in various fields, with particular reference to furthering the industrialization, independence and over-all development of these countries. 8/ Consequently, the approach to the question of developing a new division of labour through specialization will be more in tune with prevailing trends in the international community if trade expansion is envisaged from the standpoint of its contribution to the development of the developing countries in the light of their own needs, criteria and objectives.

8. Whenever the exchange of goods among countries displays, over a period of time, a more or less stable structure, it can be said that a certain form of international specialization is apparent. However, when countries aspire to change the existing patterns, and to create new possibilities for trade, practice shows that it is essential to devise policies on both the national and the international levels. Purely commercial methods have to be complemented by wide-ranging policies that extend beyond trade into the production field and even influence investment decisions. The socialist countries of Eastern Europe and the developing countries have already gone a long way in this direction. The review and analysis of recent

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7/ See, in this connexion, the Charter of Economic Rights and Duties of States (General Assembly resolution 3281 (XXIX), article 17).

8/ As recurrently stated by the official representatives of the socialist countries of Eastern Europe in their statements in United Nations bodies dealing with economic questions.

trends in the policies and efforts of countries to promote mutual economic relations, reveal a very definite shift towards more complex mechanisms of economic, industrial, technical, financial and other forms of co-operation. 9/ In particular, industrial co-operation can be considered as being the main vehicle for transmitting dynamic force from one partner to the other, while at the same time offering an appropriate basis for harmonizing policies and satisfying the interests of the partners involved.

9. In the majority of cases recorded to date, industrial co-operation with the socialist countries of Eastern Europe has meant for the developing countries the creation of new factories or the initiation of new production, with the socialist countries providing assistance in the establishment of the production capacities involved. Industrial specialization provides an additional element to this form of co-operation in that it gears the creation of new industries (or production) explicitly to increased exports. Industrial co-operation and specialization are defined by the socialist countries in much the same way. 10/

10. Although specialization links are in practice established by the respective enterprises, in response to their particular interests and projects, the role of governmental policies, programmes and plans seems to be vitally important in bridging such differences in size, levels of development and socio-economic systems as may exist between the socialist countries of Eastern Europe and the developing countries, especially since the creation of a new division of labour presupposes goals that have been jointly agreed upon and requires concerted action to attain these goals, all of which opens up vast scope for international negotiation.

11. The relatively recent origin of economic links between the socialist countries of Eastern Europe and the developing countries, together with the dynamics displayed in the evolution of relations and the emergence in some cases of unforeseen possibilities, indicate that a considerable scope for new initiatives exists in this field.

9/ See the recent issues of the annual "Review of trends and policies in trade between countries having different economic and social systems", which provide more detailed information on this evolution in the chapters dealing with trade between the socialist countries of Eastern Europe and the developing countries (TD/112, TD/B/458/Supp.1, TD/B/499/Supp.1 and TD/B/560).

10/ For the socialist countries, see in particular: Comprehensive Programme for the further extension and improvement of co-operation and the development of socialist economic integration by the CMEA member-countries (CMEA secretariat, Moscow, 1971) chapter I, sect.1.5 and sect.2.3.

I. SURVEY OF TRENDS IN INDUSTRIAL SPECIALIZATION

12. In its previous report[11] on this topic, the secretariat of UNCTAD attempted to identify in broad outline the areas and industrial branches in which a possible convergence of interests exists as regards specialization and the creation of complementary economic structures by partners from the two groups of countries. The case studies prepared approached the same problems from a more detailed and specific standpoint. [12] It was found that the areas in which the socialist countries' plans coincided with what the developing countries have already achieved in the industrial field, or were planning to do in the near future, related broadly to industries producing: [13]

- chemicals, petrochemicals, pharmaceuticals;
- iron and steel products;
- metal manufactures;
- transport equipment and motor vehicles;
- electrical engineering goods;
- household electrical appliances;
- light engineering goods;
- heavy engineering goods;
- textiles and clothing;
- leather goods;
- industrial products utilized in housing and other construction.

13. A review of the factual experience accumulated in recent years concerning the utilization of opportunities for specialization, as identified in the studies prepared by UNCTAD, while confirming the general lines of the previous assessments of production fields which offer possibilities, shows, however, that no particular break-through has been made by the partners in terms of new, striking results or radical shifts in the pattern of traded goods. On the other hand, new specialization-oriented policies and activities have been initiated by enterprises and largely supported by the respective governments, which shows that they are expected to provide additional impetus for trade and development even though the actual results of such efforts are slow to materialize.

14. The existing statistical material on trade between the socialist countries of Eastern Europe and the developing countries unfortunately does not provide a substantial amount of information on the trends leading to, or consequent upon

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[11] TD/125, chapter II.

[12] TD/B/391 and TD/B/451.

[13] The industries and products reviewed in this chapter in general coincide with those falling under the definition of "manufactures and semi-manufactures" commonly used by the UNCTAD secretariat. See also footnote 15 below.

specialization arrangements between industrial enterprises. However, it may be observed that the developing countries' exports of industrial manufactured goods have tended to occupy an ever growing share of their trade with the socialist countries of Eastern Europe over the last decade or so. For some developing countries, especially those in Asia, the Middle East and Northern Africa, the socialist countries have become quite important markets for exports of manufactures. Some more information in this respect may be obtained by observing the position of the socialist countries of Eastern Europe in the developing countries' exports of selected goods (or groups of goods) in the production of which the socialist countries have co-operated by providing technical assistance, technology, credits, equipment or actually building factories. The developing countries' exports of the majority of such goods have risen more rapidly to the socialist countries than to other countries. Although no direct causal links can be shown on the basis of the information available between industrial co-operation agreements and these trade developments, it would seem reasonable to say that not all the results can be attributed exclusively to commercial mechanisms and policies, especially in the light of the ever growing number of intergovernmental co-operation agreements.14/

15. There has been little change in the structure of exports by the socialist countries of Eastern Europe to the developing world: the predominance of industrial and, in particular, investment goods and equipment still persists. However, in recent years, some socialist countries of Eastern Europe (in particular the USSR) have started to supply or have increased their supplies of industrial raw and semi-finished materials to several, more industrially advanced, developing countries. Such changes may be an indication of the emergence of a new pattern in their specialization vis-à-vis the developing countries' needs. It must also be noted that regular supplies by the socialist countries of Eastern Europe to some developing countries of component parts and accessories, for assembly in the latter, might produce lasting links of specialization.

16. There appear to be only a limited number of actual cases in which partners have arrived at, or explicitly intended to establish, specialization links in manufacturing industries. 15/ Information on these can be obtained from

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14/ See TD/112, TD/B/458/Supp.1, TD/B/499/Supp.1 and TD/B/560.

15/ Complementary structures between the socialist countries of Eastern Europe and the developing countries based on the specialization of the latter in such activities as mining, agriculture and food, and the production of other raw materials, including the first stage of processing, were not taken up in previous studies of the secretariat. The present paper continues this approach, with the particular aim of focusing on problems of industrialization and the diversification of the developing countries' exports through the introduction of products necessitating a higher degree of processing. It should, however, not be overlooked that the socialist countries of Eastern Europe and the developing countries have entered into many agreements on co-operation in the field of primary production, with the aim of creating long-term supplies to the socialist countries of Eastern Europe. For instance, such links have been established between the USSR and Iran and also Afghanistan for production and exports of natural gas; between several socialist countries of Eastern Europe and Iraq, Syria, Egypt, Libya, in respect of crude oil; between Bulgaria, the USSR, Romania and other socialist countries of Eastern Europe, and Guinea, in respect of bauxite; between Hungary and Poland, and Morocco and Tunisia, in respect of phosphates; between Czechoslovakia and Poland and several African and Latin American countries in respect of timber and tropical wood; between the USSR and Egypt in aluminium; between several socialist countries and several African and Latin American countries in respect of non-ferrous metals, ores and concentrates; between the USSR and Somalia in respect of canned food production, etc.

non-statistical sources, mainly concerning the implementation of economic and industrial co-operation agreements, as reported by the partners. Specialization in such cases has mostly been pursued in new industries or in new capacity in existing industries built in co-operation with the socialist countries of Eastern Europe. However, industrial specialization has also taken place in developing countries' industries in the establishment of which the socialist countries did not take part. These cases can be examined within the industrial branches and product groups which were identified above as particularly suitable in this respect (see paragraph 12 above).

(a) In the chemical and allied industries, some socialist countries of Eastern Europe have arranged long-term purchases of petrochemical products, mostly from factories they helped to establish (e.g. the USSR, Czechoslovakia, the German Democratic Republic, Romania and, among others, Afghanistan, Egypt, Libyan Arab Republic, Syrian Arab Republic). In the field of pharmaceuticals, Hungary, the German Democratic Republic and Bulgaria have organized joint ventures with certain developing countries, such as India and Nigeria, supplying the necessary licences and equipment in the production of several new articles (gamma globulin, vitamins), with a view to importing these products for home consumption. Similarly, tyres and tube production in India was increased in co-operation with Czechoslovakia, which is importing part of such production.

(b) The promising prospects of specializing in iron and steel products for the purpose of supplying the socialist countries 16/ have only been taken up in a modest scale as yet. It appears that only the USSR is importing on a more or less regular basis iron and steel products from India, Yugoslavia and Egypt (produced in plants it helped to establish). Some occasional imports into other socialist countries (e.g. Poland) of rolled steel products for railways and of similar, relatively unsophisticated products, from India, Egypt and some other developing countries, point to links which might lead to long-term specialization in the developing countries' iron and steel production for the needs of the socialist countries. Moreover, the German Democratic Republic may envisage importing steel component parts for its building industry from an Algerian factory it has co-operated in establishing. In general, the socialist countries (e.g. the USSR, the German Democratic Republic, Poland and Czechoslovakia) have helped certain developing countries (India, Egypt, Yugoslavia, Algeria, Nigeria) to start or increase their domestic iron and steel production, but the major portion of such production is destined to cover internal demand.

(c) The field of the metal-transforming industries, embracing a wide range of products from simple metal manufactures to engineering and transport equipment, provides an especially suitable area for the developing countries to attempt to bring a structural change in their exports through concentrating production on such goods as spare parts, accessories and similar articles, for supply to the socialist countries of Eastern Europe. The latter countries have already developed this sector considerably and have arrived at a stage which presents a wide range of opportunities for outside partners. Furthermore, it is in these industries that co-operation between the socialist countries of Eastern Europe and the developing countries has been particularly intensive, resulting in a number of projects for

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16/ See TD/125, paragraph 26.

the establishment, in the developing countries, of new industries, many of which have already been commissioned and have reached the production stage. 17/ However, specialization agreements as defined in the present paper have involved only the most industrialized and advanced countries of the developing world (Yugoslavia, India, Egypt, Iran and some Latin American countries). A few cases can be cited where the partners organized production-sharing schemes supplying each other with specialized spare parts in approximately equal proportions and assembling them in both countries (Poland and Yugoslavia in car production). 18/ Poland and Egypt have recently negotiated the joint production of small buses and ambulances and agreed upon exports to Poland of several thousands of finished vehicles over a certain period of time. In others, the socialist country partner is still in the initial phase of providing the majority of spare parts to be assembled in the developing countries, only expecting a future return flow of spare parts from the latter (e.g. Poland, Czechoslovakia, Bulgaria in tractor production or small motor vehicles with India, Iran, Egypt, Peru, Mexico, Morocco). Cases in which the socialist countries have secured the market for new products through agreements on specific long-term purchases of goods are somewhat more frequent. For example, the USSR and India have established such links in the trade of surgical instruments, lenses and other optical material, electric motors, simple gears and excavators. The USSR has agreed with Egypt that the latter will supply it regularly on a sub-contracting basis with specific components for motor cars. Also the shipyard in Alexandria, built with the assistance of the USSR, is exporting ships to the USSR. The partners have in several cases explored possibilities for specialization based on factories established in the developing country by a socialist country (Czechoslovakia and India in engineering; 19/ Czechoslovakia, the USSR and Iran in machine tools; Romania and Iran in railway carriages; 20/ the German Democratic Republic and India in electro-mechanical goods). 21/

(d) The convergence of interests with respect to specialization and co-operation has been more visible in the textile industry, where the tendency of the socialist countries of Eastern Europe to shift towards higher-priced textile goods (e.g. Czechoslovakia, Hungary and the German Democratic Republic) has been matched by the developing countries' ability to offer needed manufactured and semi-manufactured goods. The partners have aimed at achieving stable and lasting flows of such goods to the socialist countries' markets, especially in cases where the importing socialist country was ceasing or diminishing its own production thereof (for example the special kinds of cottor semi-manufactures produced in Egypt for the German Democratic Republic). Usually, the socialist

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17/ See, in this connexion, the UNCTAD secretariat reports "Review of trends and policies in trade between countries having different economic and social systems" (TD/B/499/Supp.1), paras. 67-70.

18/ Poland and Egypt also envisage a similar arrangement in car production, as soon as mutually acceptable standards for spare parts can be arrived at.

19/ Notably high-pressure boilers.

20/ According to preliminary information, half of the production should be exported regularly to Romania.

21/ E.g. household meters, cables and certain appliances.

countries of Eastern Europe (e.g. Czechoslovakia, the German Democratic Republic, Poland and the USSR) have in these cases supplied the developing countries (Egypt, Iran, Iraq, India) with equipment for the production of the goods required, or have provided technical assistance or technological guidance to the producers whose output was imported.

(e) Similar developments have occurred in other consumer goods industries. Poland is regularly importing from Pakistan (and some other developing countries) shoes which have been produced under the technical guidance of Polish experts, thus ensuring that the product complies with the requirements of the Polish market. Czechoslovakia has for some time been co-operating with the developing countries (India, Iran, Egypt, Ethiopia, Uruguay, among others) in establishing a number of factories in the leather industry, and has arranged with them regular imports of their products, mostly semi-manufactured goods.

17. As stated above (para. 15), the socialist countries of Eastern Europe have also tended to concentrate in their exports to the developing countries on certain groups of products, and such trade flows have taken on a durable nature. This concentration, until recently, did not require new industries to be established in the socialist countries, because existing capacities and lines of production were able with only minor adaptation to satisfy the needs of the developing countries. However, in the past two years some socialist countries of Eastern Europe and some oil-producing developing countries have concluded co-operation agreements for the setting up of factories in the socialist countries, the production of which is destined for the developing countries. Usually, the developing countries concerned have offered to cover part of the financing burden, and have accepted repayment in goods produced by the new plants. An example is the recently negotiated establishment in the USSR of a wood-pulp and paper complex with the financial co-operation of Iran, part of the production being assigned to cover the latter country's needs. 22/

18. The review of cases confirms that co-operation agreements have been a particularly appropriate and promising means of opening up new trade flows as they provide for the setting up of new factories and new lines of production in developing countries with a view to arranging in due course, once the necessary conditions are present, imports into the socialist countries. Furthermore, the repayment in kind of the credits accompanying these projects and supplies of equipment has also had the effect of earmarking new goods for the socialist countries' markets on a long-term basis. In other cases, co-operation and assistance by the socialist countries has been mainly geared to adapting all or part of production in developing countries' factories to the quality and variety requirements of the socialist countries, thus laying the basis for regular supplies. Lastly, some sub-contracting and production-sharing has been organized between the more industrialized developing countries and the socialist countries of Eastern Europe, although in a rather limited number of cases. It should be noted that the search for ways and means of promoting such co-operation continues, and that new combinations are being introduced, especially in the field of joint ventures, mixed companies, participation in common projects, etc.

22/ Other similar cases of a developing country financing the establishment of new production lines in the socialist countries, have been mainly concerned with the primary industry, food in particular (see TD/B/560).

II. POLICY ISSUES AND CRITERIA

19. The fact that the socialist countries' economies are centrally planned and regulated, and the fact that relations with these countries are still a relatively new phenomenon, lends to such relations a specific character which offers to the developing countries a chance to achieve not only physical and quantitative increases in trade, but also certain qualitative results and changes as well. It seems, in particular, possible in this particular sector of world trade to implement, through joint agreements between the partners, certain principles of development and to apply certain criteria with respect to the pattern of trade more easily than in other international relations. A policy aimed at changing the traditional patterns of trade, which might have some appeal to developing countries wishing to attain a new international position in their trade, can in fact be facilitated by co-operation with the socialist countries, which may offer alternative solutions and a greater range of choice.

20. International industrial specialization, as defined in this paper, involves two parties each having a distinct role to play. The decisions and choices involved, therefore, require certain efforts to be made in order to harmonize the goals and interests of the different countries. In negotiating such issues, a comprehensive but internally consistent policy, reflecting development strategies in each of the partner countries, has definite advantages over an ad hoc and unsynchronized approach, since it will permit each country to identify and, if possible, influence the role the other country could play in its national development. As stated earlier (see paragraph 7), it may be expected that the developing countries will increasingly try in their international relations to secure a certain degree of priority for their own development goals, which should thus enable them to determine their role in the international economic process with more autonomy than hitherto.

21. It would appear that no major difficulties are likely in co-operating under such general principles, as the socialist countries of Eastern Europe approach the question of international specialization in much the same manner (see paragraph 7). An analysis of co-operation agreements and their implementation shows that the socialist countries of Eastern Europe have effectively supported the development goals of the developing countries: a considerable proportion of the factories erected or the equipment delivered under co-operation agreements has been devoted to the establishment of "key" industries, which play an important role in that they provide a basis for further industrialization, as well as the general development and export expansion of the recipient country. 23/

22. Through such co-operation, the socialist countries of Eastern Europe and the developing countries have in a sense become partners in the promotion of the latter's development process. Since this process consists essentially in a transformation of existing structures, and comprises stages each of which offers different production patterns, it would seem natural to expect that the possibilities for specialization increase as industrialization proceeds, and are subject to more or less rapidly changing circumstances. The partner countries are, therefore, confronted with the question of how to keep in tune with the progress of development in their choice of projects. Through their exports, the socialist countries of Eastern Europe, given their economic potential, seem to be fully capable of playing an important part in practically all stages of development, from

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23/ See TD/B/350.

the setting up of essential industries and infrastructure in the early stages, to the establishment of sophisticated industrial plants. It is also important to observe that experience indicates that the socialist countries of Eastern Europe have shown themselves ready to introduce developing countries into areas in which the prospects for specialization may be regarded as favourable. 24/

23. The view that international relations should be shaped in such a way as genuinely to promote the economic growth of the developing countries requires that the socialist countries concentrate in their exports on the goods needed by the developing countries at the particular stage of development they have reached. Although the socialist countries of Eastern Europe, given the present structure of their exports of machinery and equipment, largely comply with the needs of the majority of developing countries, it is particularly worthy of mention that some of the more industrialized developing countries are increasingly requesting the socialist countries to adapt their exports to new requirements, and to establish regular flows of raw materials and semi-manufactures for use by the developing countries in their manufacturing. 25/ Some socialist countries of Eastern Europe have already met these requests, and have moreover expressed their readiness to assist the developing countries in taking up existing idle capacity by placing orders for the manufacture of goods based on materials supplied by the socialist countries. 26/ In particular cases, some developing countries (e.g. India) consider 27/ that imports from the socialist countries of what are known as "wage goods", in particular food, are an important contribution to their development and indirectly influence in a positive manner their ability to export industrial goods. It would seem that the concentration of the socialist countries on exporting these goods on a long-term basis, as well as equipment and machinery, is likely to create the appropriate preconditions for future patterns of specialization.

24. In their attempts to create a new production structure which will make greater use of national factors of production, the developing countries in general may have a preference for setting up industries which generate appreciable direct and, in particular, indirect effects throughout the economy, requiring a large variety of inputs from other branches, and supplying their output to a large number thereof. Consequently, they may tend to specialize with respect to the socialist countries of Eastern Europe in certain goods, the production of which necessitates the indirect involvement of as many industries as possible. The higher the degree of processing of the raw material inputs, the more will the final products respond to this

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24/ The agreements, protocols and other documents of the mixed intergovernmental commissions, which specify the fields in which co-operation is to be stimulated and individual projects to be carried out, give ample evidence to this effect (see in particular agreements with India, Egypt, Yugoslavia, Iran and Argentina).

25/ See, in this connexion, the statement of the representative of India at the 434th meeting of the Trade and Development Board (TD/B/SR.434).

26/ See, in particular, the statement by the USSR concerning prospects for the development of its trade and economic co-operation with the developing countries (TD/163).

27/ See document UNCTAD/TSC/25, "Intra-industrial specialization and its impact on trade and economic co-operation between India and the socialist countries of Eastern Europe".

criterion. When defining its policy vis-à-vis specialization, a developing country may also envisage calling upon the assistance of the socialist countries, within the framework of their over-all co-operation, to help in the establishment of harmoniously integrated economic complexes, with a view to creating, at some part of the complex, possibilities for specialization. It goes without saying that in many such cases infrastructural inputs are needed, which can involve the assistance of the socialist countries in setting up infrastructure facilities. The experience gained in co-operation with some of the more advanced developing countries shows that the partners have in fact followed this pattern. Several cases of co-operation in establishing complete, usually vertically integrated, complexes have already occurred in the petrochemical, iron and steel, metal-transforming and some light industries. It seems, however, that the joint formulation and execution of development programmes dealing with whole sectors can be expected to become more systematized in the future only once there is co-operation between the respective planning bodies.

25. If co-operation in industrialization continues, the need will soon become apparent for the individual partners from the two groups of countries, linked to each other themselves bilaterally, to include partners from other countries in their projects. Various forms of multilateral co-operation might then lead to the specialization of each country in certain products with the aim of supplying the other partners with them. In particular, the developing countries could be encouraged to draw adjoining countries into efforts to create and exploit new possibilities in the socialist countries through co-operation and specialization in production. The socialist countries of Eastern Europe have now started to tackle the question of involving groupings of developing countries around a single project, and some initial steps have been discernible in this field. 28/ The socialist countries have begun to consider how to eliminate the obstacle of the small scale of production and market potential in some developing countries by inciting several of such countries to co-operate. 29/

26. Owing to their generally low propensity for capital formation, the developing countries might be especially attracted to concentrate upon industries offering relatively high rates of accumulation. Although it may be extremely difficult to enhance the accumulative capacity of an economy, there would seem no reason not to take into account the criterion of capital formation, when the selection of fields for specialization of the developing countries is being negotiated with the socialist countries.

27. It is only natural to expect that the criterion of efficiency of a new production project in a developing country ranks high among other considerations governing the decisions of the partners to embark upon a specific project. However, owing to the fact that it is only rarely that a newly established plant in a developing country can fulfil the standards of efficiency prevailing in the developed countries, it would seem appropriate to take into account other criteria when making the choices. There is a certain danger that the establishment of new

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28/ For example, Czechoslovakia is envisaging assisting Peru in establishing a motor-cycle industry which would offer possibilities of including in production and sales other members of the Andean Group of countries.

29/ For example, Czechoslovakia, in its projects to develop metal-transforming industries in African countries; Hungary, in some projects concerning electrical goods production and marketing in several Asian countries.

industries will be blocked, and the opportunities to create complementary structures severely limited if static and short-term profitability is to be viewed as the only, or even the main consideration. More chances are given to the weaker, developing partner if a long-term view on efficiency is adopted. This in fact means that some future standards of efficiency are assumed and discounted at the moment of taking the decision, allowing sufficient time to train productive factors to achieve such standards. 30/ The developing countries are particularly interested, too, in the inclusion in the criteria of specific objectives in the social, educational and political fields. It could even be argued that for many developing countries specialization makes sense only if it contributes to some of these goals. Furthermore, the long-term approach must take account not only of the existing productive environment, but also of the new branches of production which are likely to become part of the national economy. The production envisaged should be judged in terms of its ability to provide an impetus to other industries.

28. Since specialization commits and links the partners' productive structures, it has a considerable impact on the internal economic scene. The question of adapting productive capacities to new requests inevitably arises. Owing, however, to the considerable differences that exist in dimensions, structure and development levels, this problem differs in substantive content in each group of countries, and even in each pair of individual partners. The export specialization of the socialist countries vis-à-vis the developing countries, in the sense of earmarking certain products to cover the needs of the developing countries, should not, in general, given the present stage of their relative positions, be regarded as requiring the setting up of new industries. 31/ Nor does it seem necessary for the socialist countries radically to change the existing pattern of production, although it should not be overlooked that selling to the developing countries necessitates a considerable degree of adaptation of the technological parameters, quality standards, etc. The socialist countries - owing to their own development and in particular their integration within the CMEA area and their co-operation with Western countries - will be able to enhance the technological properties and widen the range of the goods supplied.

29. Another aspect of the adjustment process is the impact of socialist countries' imports of goods in which the developing countries specialize. Again it seems that no radical changes in the pattern of production by the socialist countries should be anticipated, principally because the developing countries have rather limited capacities of supply as compared with the sometimes huge demand potential in the socialist countries. Cases in which the socialist countries have actually shifted away from some lines of production and arranged for the developing countries to replace them with exports - as, for example, the German Democratic Republic, Poland and Hungary have done with simpler cotton textile goods - are somewhat rare, and it must be noted that the shifts were brought about mostly by internal reasons, such as the saving of manpower or capital for other purposes. Similarly, few adjustments have been required in the production capacities of the socialist countries as a result of sub-contracting and production-sharing schemes with the developing countries. Experience shows that in the majority of other cases the

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30/ In all such cases, the developing countries' internal economic policy instruments seem to be of the utmost importance. Their role consists, specifically, in correcting the internal inputs' valuation in such a manner that the product exported to foreign markets remains within a competitive price range.

31/ However, for possible new trends in this respect, see para. 17 above.

developing countries were called upon to cover the needs of the socialist countries simply because the existing capacities in the latter, even fully utilized, might not have been able to respond to internal demand. In such cases, the developing countries' specialization was not a consequence of complementary structures, or of efforts to establish such structures, but evolved under the stimulus of competitive market circumstances.

30. Industrial specialization in the developing countries, as envisaged in the present paper, can be expected to promote more radical modifications in the productive structure of these countries. These, however, should be interpreted as consisting mainly in the emergence of new capacities within an environment largely devoid of other industries, so that, usually, there will be little need for any adjustment among existing industries. The only adjustment needed would probably be to make changes in the priorities assigned to industries programmed but not yet established. It would appear hardly ever necessary for the developing countries to refrain from establishing certain lines of production, or to abandon existing forms of production. Similarly, the socialist countries' exports to the developing countries under specialization schemes as a rule contribute to the expansion of the production structure and not to its reduction.

31. By definition, specialization gives rise to long-term and stable links between economies. The developing countries might wish to conceive of such links with new partners, the socialist countries of Eastern Europe, as a convenient way of lessening their dependence on traditional markets. Several types of linkages tailored to different groups of foreign partners can provide effective safeguards against the possible risks of overwhelming foreign influences. The attitude of the socialist countries towards these issues would appear to coincide in large measure with that of the developing countries (see paragraph 7 above). In particular, there seems to be a community of view in the general approach to specialization, in that specialization is considered to be determined by the levels of development prevailing in the partner countries, which implies the idea of changing patterns and including new areas into the sphere of joint interests. The practice of durable links in the industrial field has already drawn attention to several issues which might require attention in future policies. The socialist countries usually wish to secure lasting links and stable foreign inputs, owing to the fact that their development is governed by a central plan and not by market forces, so that durability of relations and reliability and security of deliveries is an essential part of their demands vis-à-vis the developing countries. On the other hand, since the developing countries evolve in changing conditions, usually influenced by market forces, which require alterations in the priorities assigned to the industries which are to be concentrated upon, they may have some apprehensions with respect to long-term links where this might be interpreted as diminishing their freedom of choice. In several instances, certain developing countries and socialist countries have in fact been compelled to renegotiate the substance of, and conditions, for long-term supplies, which were the subject of earlier agreements. All these considerations should be carefully weighed and compared with the obvious advantages of security and concentration over the long term.

32. There is no way of determining in advance what is an adequate period of duration for long-term linkages. In existing practice, the governments of the countries concerned have usually agreed on long-term (5, 10, 15 years) framework co-operation agreements, leaving it up to the implementing bodies and enterprises to specify in each case the period of validity for each contract. Various devices have up to now been employed: e.g. contracts on long-term supplies have sometimes been linked to the period of credit repayments, or to the estimated life of the

equipment involved, or to the duration of socialist countries' current plans. However, a tendency to prolong the period of stable links has undoubtedly been reflected in the majority of the more recent important arrangements.

33. It has been already experienced that the particular circumstances in which economic relations between the socialist countries and the developing countries evolve require a specific institutional framework in order to facilitate the implementation of policies aimed at changing trade structures and establishing new kinds of links. 32/ This framework has proved to be more important in the developing countries' relations with the socialist countries than with the other industrialized countries. The inter-State institutional machinery (intergovernmental agreements, mixed intergovernmental commissions and their various working groups, etc.) is constantly being refined in view of the several important tasks such machinery is called upon to perform, such as to facilitate joint policies, or to take care of possible difficulties in trade relations owing, in some cases, to considerable differences in the sizes of each economy or in levels of development. The latest developments in this field reflect the efforts of some socialist countries of Eastern Europe and developing countries to establish institutional links between their national planning organization (among others, the USSR, German Democratic Republic, Romania, and India, Yugoslavia, Egypt).

34. Since internationally agreed policies must be implemented at the national level through appropriate measures, internal mechanisms and institutions are also required. This is less a problem for the socialist countries which, being centrally planned, should not have any major difficulties in executing international decisions in the internal sphere. In contrast, however, this might require considerable efforts in the developing countries since the majority of their economies operate in one way or another under a sort of market mechanism that is not easily adapted to the requirements of co-operation with countries having a different economic system. This is why the international commitments entered into by the developing countries, as part of their co-operation agreements with the socialist countries, have been more effectively implemented in those countries which possess comparatively strong State or public sectors combined with governmental direction and influence in the field of economic decision-making 33/ (such as India, Yugoslavia, Iran, Iraq, Syrian Arab Republic, Algeria). Some other developing countries (for example several countries in Latin America, and in Eastern and South-Eastern Asia) have felt the need to make their intergovernmental agreements with the socialist countries of Eastern Europe more effective internally, and have created special domestic organizations with the double aim of channelling internal efforts towards intergovernmental bodies and securing the implementation of the latter's decisions at the national level. The actual activities of such organizations have proved to be very useful in several ways, particularly in enhancing the receptive capacity of the developing countries.

32/ See, inter alia, TD/125, para. 7 and paras. 41-44, as well as the secretariat study "The role of mixed intergovernmental commissions in trade relations among countries having different economic and social systems" (TD/B/452).

33/ See also United Nations, World Economic Survey, 1974, Part one. "Mid-term Review and Appraisal of Progress in the Implementation of the International Development Strategy" (E/5665-ST/ESA/26), p. 174.

III. CONCLUSIONS

35. At the present stage of relations between the developing countries and the socialist countries of Eastern Europe, the further development of industrial specialization needs to be supported by adequate governmental policy measures which will create favourable conditions for the materialization of enterprises' interests in this field of international economic relations. This requires measures at both the internal and the intergovernmental levels. By drawing upon multilateral experience, comparing existing problems and the ways they may be solved in various countries, UNCTAD can assist governments in designing consistent and effective economic policies. In doing so, UNCTAD might also have an influence on actual specialization arrangements between parties concretely interested and engaged in them.

36. With the machinery at its disposal UNCTAD might be entrusted with several tasks and, in particular, could:

(a) Elaborate, on a multilateral basis, generally applicable guidelines, norms or criteria concerning, among other issues, the choice of modalities for establishing and stimulating industrial specialization with a view to achieving development objectives, which could be eventually taken into account when policies for specialization are elaborated by governments;

(b) Propose practical measures and procedures for utilization by governments in their internal and external policies, to facilitate, inter alia, production and trade, by giving priority treatment to enterprises involved in specialization schemes through appropriate facilities in the financial and fiscal fields, as well as through application of preferential regulations in the foreign trade system, in freight rates, etc.; 34/

(c) Suggest concrete modalities for the harmonization, to the extent possible, of the legal provisions regulating different issues in respect of specialization;

(d) Contribute to the establishment of internationally acceptable contractual practice and produce indicative models so as to assist interested enterprises in their actual negotiations;

(e) Continue to identify new areas with possibilities for the expansion of trade through specialization;

(f) Investigate and propose modalities and procedures to governments and their subsidiary bodies for the utilization of the opportunities identified;

(g) Explore the possibilities of and propose modalities for the increased participation of the CMEA and its secretariat in efforts to promote industrial specialization arrangements with the developing countries, on both a bilateral and a multilateral basis;

34/ See also "Analytical report on industrial co-operation among ECE countries" (E/ECE/844/Rev.1), chapter V, Summary and suggestions, containing measures which could be adapted to the specific requirements of relations between the developing countries and the socialist countries of Eastern Europe.

(h) Contribute to the establishment of a lasting dialogue between the planning and other competent administrative authorities of the socialist countries of Eastern Europe and the developing countries in order to promote the durability, regularity and stability of specialization arrangements.

37. In performing such tasks UNCTAD might, if so requested by its members, undertake to:

- Organize a seminar or meetings of experts on the above-mentioned topics, such as the modalities for harmonizing legal provisions or the identification of new areas for specialization which, on the basis of comparative reviews and studies, might result in concrete suggestions to the interested governments;

- Improve and effectively utilize the machinery of bilateral and multilateral consultations between countries having different economic and social systems which exists in UNCTAD for discussing trade expansion and ways and means of achieving such expansion through industrial specialization;

- Utilize the meetings of representatives of planning bodies or other relevant authorities of the socialist countries of Eastern Europe and interested countries, which have been proposed by UNCTAD,35/ to compare intentions, tendencies, plans and programmes, to explore possibilities for international industrial specialization, and to identify and discuss the prerequisites for such specialization;

- Disseminate information on various aspects of and the issues related to trade-creating specialization, and also, utilizing its own machinery, and in response to the wishes of the governments, contribute to the exchange of information between interested parties on fields in which specialization would be possible and desirable, concrete proposals in this respect, etc.;

- In particular, assess the positive achievements obtained and the solutions of problems adopted in specialization arrangements among the socialist countries of Eastern Europe themselves and between them and the developed market economy countries, with a view to adapting them to the conditions prevailing in relations between the socialist countries and the developing countries, so that the latter might profit from that experience.

35/ See secretariat policy paper on trade relations among countries having different economic and social systems (TD/193).